

## **Forum 6 Proposed Technical Papers and Discussion Topics**

### **Technical Paper 1: *Comparing Political Economies***

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The Nobel Prize winning economists Robert Lucas has remarked that once you study the problem as why some nations are rich and others are poor it is difficult to think seriously about any other issue in economics. With the collapse of communism in the late 1980s the field of comparative political economy has undergone a major revision. Socialism is no longer the viable alternative system it once was perceived to be. Now we recognize that the choice is one between alternative institutional arrangements of capitalisms. Progress in the field of comparative political economy is made by an examination of how alternative legal, political and social institutions shape economic behavior and impact on overall economic performance. One of the most important insights that has been derived from this comparative institutional analysis is how the economic game is structured by the rules within which economic actors play the game. Furthermore, the focus on rules also forces one to pay attention not only to the formal rules embedded in the legal and political system, but the informal rules that are embodied in cultural norms and social mores. This demands an alternative empirical approach as well, because the informal sector lies outside the realm of the official statistics and even perhaps the quantifiable. Economists faced with this situation can either try to force the informal world into their measurement techniques with proxy measures, or open themselves up to empirical techniques that are more amenable to the informal world of norms and mores that underpin social intercourse. The argumentative structure of the economic way of thinking is retained, but the more narrative form of empirical work is explored – producing what is becoming known as *analytical narratives*.

In this paper I survey the new learning in comparative political economy, and then apply that theoretical framework to assess the impediments to entrepreneurship in Eastern and Central Europe and the former Soviet Union.

### **Technical Paper 2: *Understanding the Transactions Costs of Transition: It's the Culture Stupid***

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This paper analyzes the costs of transition to market economies in terms of the interaction between new formal institutions and existing informal institutions. Existing informal institutions can be said to comprise a community's culture. The transactions costs of adopting a set of formal institutions consonant with existing informal institutions (culture) will be relatively low, while the transactions costs of adopting a set of formal institutions in conflict with existing informal institutions will be relatively high. This

difference in culture-related transactions costs helps explain the varied success of market reforms in Central and Eastern Europe.

Two kinds of transition processes are distinguished: transition by fiat and transition by voluntary contract. The paper argues that transition by fiat risks being undermined by those with incentives to maintain the existing set of institutions, and the costs of flawed transition will in such cases be borne by society at large. Transition by voluntary contract, on the other hand, allows the mediation of conflicts between new and existing institutions by individuals who attempt to use new formal rules to their advantage, but who bear the cost of their actions privately if they run afoul of local norms.

**Technical Paper 3:** *Reciprocity and Social Order: What do Experiments Tell us about the Failure of Economic Growth?*

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This paper discusses how recent work in experimental economics helps to explain a critical puzzle of development: the transition from societies based in an institutional framework of small-scale personal orders to those, more prosperous societies, based in institutional frameworks of extended or impersonal order and exchange. This literature attempts to examine how trust that is formed in small group environments can be expanded to larger groups. Trust is important for economic development because it lowers the transaction costs of interaction. There is evidence in the literature that more market oriented societies are higher trust societies - not that they trust particular individuals, but they trust the institutions which govern the interaction of individuals. These institutions, in short, serve as proxies for small group trust. The puzzle then, is how to encourage this transition.

Laboratory work reveals patterns in human decision-making about exchange and reciprocity that constrain the types of institutional designs that will meet with success. The results of experiments testing specific institutional systems, including those of property rights and contract, will illustrate how institutional design relates to growth and the impediments to achieving it.